EVA Helps Privately-Owned Barry-Wehmiller Drive Profitable Growth

EVA, for economic value added, has helped the Barry-Wehmiller Companies, a family-owned maker of capital equipment, to rise to the ranks of the most successful corporate acquirers over the past quarter century.

EVA has also featured in a stock purchase plan that enabled key employees to share in the wealth they are creating while motivating them to create even more.

Since 1998, the company's sales ballooned from $38 million to $1.4 billion, with the bulk from 63 acquisitions. But Barry-Wehmiller has not just gotten bigger. Using the discipline of EVA to temper purchase prices and to integrate acquired companies under a common financial umbrella, Barry-Wehmiller produced stunning financial results.

Its EVA—which measures profit net of a full capital charge, including a priority return for the shareholders—increased mightily, and was behind a 16% compound annual increase in the firm's appraised share value since 1998. $1 in company value then became $9.34 today, with a 3% dividend yield to boot.

Credit for the company's success properly goes to Chairman Robert H. Chapman, who took the helm at age 29 after his father died in 1975. But Chapman shares much of the credit with EVA. "We don't like EVA," he says. "We LOVE EVA. It's the key to creating value, and to the equitable sharing of value."

Phase I: EVA Used to Price Acquisitions

Barry-Wehmiller began using EVA to value acquisition targets back in 1989 after several of its executives attended an early EVA seminar by Bennett Stewart. Barry-Wehmiller bought only when it could see ways to improve an acquisition by enough to provide a positive EVA profit on the price it paid. "Studies show that more than 70% of acquisitions fail to achieve their goals," says Chapman. "Most of our acquisitions have done even better than we projected."

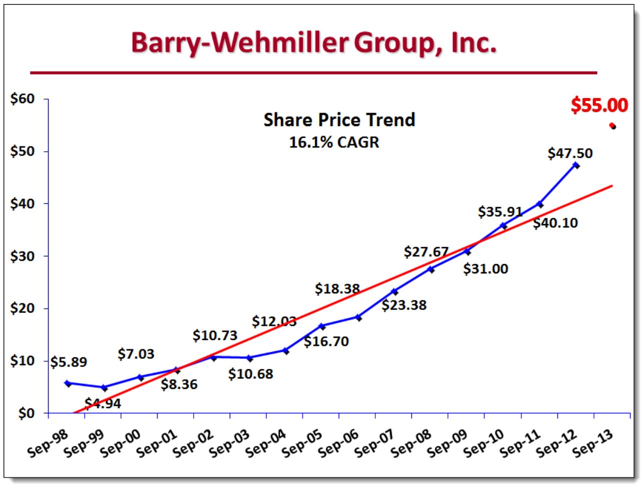
Robert H. Chapman

Phase II: EVA Used to Price the Stock

The company's use of EVA was limited to acquisition analysis until 1998, when Chapman began using it to value the company's stock in a program that allows employees, directors and qualified investors to buy and all shareholders to sell to the company at the EVA-determined price. The company sets a price for its stock twice a year, using a valuation formula based on discounting a three-year EVA projection.

Chapman started the program after issuing shares in a 1995 acquisition that allowed owners of the selling company to put their Barry-Wehmiller stock back to the company at a price based on the EVA formula. For about 40 years prior to that, all transactions—purchases and sales by employees and sales for liquidity by Chapman's family—had been done at 91% of book value. "It just wasn't fair having the 91% of book value price for my sisters and employees, and a higher price for owners of companies we were acquiring," says Chapman. "The change enabled me to be fair to my sisters and my employees and to my father's trust in me."

Chapman believes the EVA-determined value is much better than having a public stock. "It gives constant knowledge of the share price and constant liquidity for anyone wanting to sell, just like a public stock," he says. "But our stock does not swing wildly in value with the emotions of the market. It only changes when the underlying EVA value changes. And because of the way we run the business and make acquisitions, and our ability to grow our EVA, that value has doubled every five years."



The stock program has been phenomenally successful at providing liquidity to the Chapman family and motivating and retaining key managers. More than 225 employees now own stock, and it creates significant wealth for them. Some executives own $20 million or more of stock, often with a cost basis of just 15% of the current value.

The EVA-valued stock brought about a transformation in line managers. "There suddenly was much greater interest in driving the firm's EVA performance," says Tim Sullivan, a former CFO who now oversees two of the largest operating divisions. With their stock valued by EVA, line managers were motivated to focus even more closely on managing the capital tied up in balance sheet assets, including working capital and plant turns, and on eking more EVA from each new acquisition, such as with profitable growth.

Operating teams also have practiced what Chapman calls visioning in the planning process. "We ask for your vision of where are you going, why, how many dollars of value are you going to create," says Chapman. "EVA gives us the ability to monetize that value and translate it to the share price."

Phase III: Adopting *Best-Practice* EVA

Barry-Wehmiller is now entering its third phase with the adoption of a new version that converts EVA into a growth rate statistic that can be compared across divisions. It also comes with a ratio analysis framework that connects EVA to the underlying levers and that line managers can manage.

"We didn't have a way to take EVA to the business units until now," says CFO James Lawson. He thinks the new model will make it much easier for operating executives to understand the dynamics of value creation in their businesses and benchmark with peers and spot areas with the greatest potential to increase EVA. "We are driving home that we want to see positive EVA growth in every business unit every year," he says. We've always been doing that, but now we have a toolkit that makes it much easier to do."

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